

Effect of the Sale of St. Dominic's Hospital to Kaiser Foundation
Hospitals on the Accessibility and Availability of Health Care
Services

**Prepared for the Office of the
California Attorney General**

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INTRODUCTION AND PURPOSE

Catholic Healthcare West (“CHW” or “Applicant”), a California non-profit public benefit corporation, has requested the California Attorney General’s consent for the proposed sale of St. Dominic’s Hospital (“SDH” or “Hospital”) to Kaiser Foundation Hospitals, Inc. (“Kaiser”), a California non-profit public benefit corporation, under the California Corporations Code section 5920.

This report, prepared for the Office of the Attorney General, describes the possible effects the proposed sale may have on the delivery, accessibility, and availability of health care services in the service area.

CHW is proposing to sell to Kaiser substantially all of the assets used in the operation of SDH and the surrounding CHW medical offices and structures. Kaiser desires to continue to operate the Hospital on behalf of its membership and has also stated a willingness to keep the Hospital’s services available to non-Kaiser physicians and the general public.

Medical Development Specialists Inc. (“MDS”), a health care planning and policy consulting firm, was retained to analyze the health impacts of this proposed transaction. MDS has prepared this report based upon the following:

- A review of the documents filed with the Attorney General by Applicant on August 5, 2004 in its notice and request for consent to the transaction.
- Interviews with community members and representatives, SDH medical staff, SDH management and employees, the Kaiser Senior Vice President and Area Manager of the Central Valley Area, the Interim Director of San Joaquin Department of Health Services, and others knowledgeable of potential community health impacts.
- An analysis of financial, utilization and service information provided by SDH management.
- An analysis of area health care services using Office of Statewide Health Planning and Development (“OSHPD”) data, the San Joaquin County Emergency Medical Services Agency EMS Transportation Plan (2004), the Manteca District Ambulance 2003 Year End Report, findings from the 2001 California Health Interview Survey, and other various sources.
- A review of relevant newspaper articles.
- Additional data obtained through requests to Applicant and Kaiser.

BACKGROUND AND DESCRIPTION OF THE TRANSACTION

Catholic Healthcare West, which has 41 hospitals throughout California, Arizona and Nevada, owns and operates St. Dominic's Hospital, a non-profit, general acute care hospital licensed for 99 beds located in Manteca, California (San Joaquin County). CHW also owns 294 bed St. Joseph's Medical Center of Stockton, which is located approximately 16.5 miles from SDH. CHW desires to sell SDH because of poor utilization rates and financial performance.

Kaiser Foundation Hospitals, Inc., part of Kaiser Permanente Health Plan, operates 30 hospitals, most of which are located in California. Kaiser Permanente Health Plan, founded in 1945, is the nation's largest non-profit health plan serving over 8.2 million members. In California, Kaiser consists of the following:

- Kaiser Foundation Health Plan, Inc.
- Kaiser Foundation Hospitals and their subsidiaries
- The Permanente Medical Groups, for-profit physician medical groups that exclusively serve the Kaiser Health Plan

Kaiser has approximately 53,000 members in the SDH service area and operates a medical clinic near the hospital that has roughly 100,000 patient visits each year.

History of St. Dominic's Hospital

The Hospital was opened in 1990 to serve residents of Manteca and southern San Joaquin County. The Dominican Sisters of San Rafael sponsors SDH as well as St. Joseph's Medical Center in Stockton. SDH is set upon approximately 35 acres in Manteca and consists of one building of approximately 77,300 square feet. The hospital provides emergency services, obstetrics, medical/surgical services, sub-acute services, diagnostic imaging services, physical therapy services and other inpatient and outpatient services. The property has four office buildings on its campus, one of which is owned by physicians who have offices located in the building.

Reasons for the Sale

The Hospital currently has a total available capacity of 99 beds for both general acute and sub-acute care patients. During the last fourteen years of operation, SDH has been unable to grow the general acute care services beyond an average daily census of 14 patients, despite substantial population growth within its service area. The sub-acute services, however, have operated at almost full capacity, with an average daily census reaching as high as 48 patients on 50 licensed skilled nursing beds. Many of the patients utilizing these services require ventilator care and are admitted on a long-term basis. Because of low utilization of the general acute care service, increasing costs of operation, and limited reimbursement, the financial performance of the Hospital has been poor and continues to decline.

Management has tried a variety of strategic initiatives to improve performance, including recruiting new physicians, developing new clinical service lines, and expanding sub-acute services. These efforts have been unable to curb mounting financial losses for the following reasons:

- Inability to attract new physicians to the area to support service development
- Poor reimbursement for sub-acute patients
- The area wide growth of Kaiser's market share and membership which use other hospital facilities in Stockton, Modesto, and elsewhere
- Increasing hospital expenses, especially due to:
 - Higher labor costs resulting from nursing shortages and unionization
 - Workers' compensation insurance premium increases
 - State mandated increases in nurse staffing ratios
 - Higher utility, supply, and pharmaceutical costs

Summary of the Asset Purchase Agreement

The major provisions of the Asset Purchase Agreement (APA) dated July 6, 2004, with additional replacement pages provided August 23, 2004, include the following:

- The purchase price is \$30 million subject to adjustments set forth in the Asset Purchase Agreement.
- The assets being purchased by Kaiser include SDH, surrounding real estate, office buildings, structures and fixtures, and personal property including equipment, supplies, and inventory.
- The assets retained by CHW include cash, records, name, service marks, logo, religious symbols, pre-closing accounts receivable, and other designated assets.
- Kaiser, in its sole discretion, shall determine the number, classifications, job qualifications and all terms and conditions of employment for employees staffing the Hospital following the closing. Kaiser intends to offer available positions to all non-managerial and non-supervisory Hospital employees who submit an application for employment prior to an established deadline. In offering available positions, Kaiser retains exclusive right to decide which positions, if any, it offers any applicant.

Kaiser intends to recognize labor organizations that currently represent Kaiser's employees in bargaining units as the representatives of all employees hired to work in positions covered by those bargaining units at the hospital.

- The Asset Purchase Agreement states that with regard to charity care, Kaiser “shall provide charity care services at the Hospital consistent with Kaiser’s obligations as a non-profit tax exempt corporation.”
- For the 5-year period after the closing date, Kaiser shall maintain a basic emergency medical service as a supplemental licensed service at the Hospital available to the general public and shall not close or reduce such supplemental licensed service. Kaiser shall maintain the sign at the Hospital regarding emergency services or a similar sign so long as Kaiser maintains a basic emergency medical service at the Hospital.
- If Kaiser decides to close or reduce the number of skilled nursing/sub-acute beds at the Hospital, and if such decision results in the transfer of patients who are not members of the Kaiser Foundation Health Plan to other facilities, Kaiser shall consult with the patient and his or her family regarding the transfer, the medical needs of the patient and the availability of beds in other facilities. Kaiser shall take into consideration the interests of the patient and his or her family in determining the placement of the patient.

Use of Sale Proceeds

As required in the bylaws of CHW, the Dominican Sisters must approve the sale of SDH. The Dominican Sisters have given approval for the sale subject to the performance or enforcement of the following major actions by CHW:

- Diligent pursuit of the completion of a 72 bed inpatient expansion at CHW’s St. Joseph’s Medical Center in Stockton.
- The development of additional outreach healthcare services in SDH’s service area.
- A contribution of the greater of \$10 million or the net sale proceeds to the O’Conner Foundation of San Joaquin County for the purpose of continuing support of the medical mission of St. Joseph Medical Center. The Foundation’s stated charitable purpose is the financial support of St. Joseph’s Medical Center, SDH, and two other related healthcare entities in San Joaquin County.
- For five years after the closing date, CHW will match dollar-for-dollar all funds raised by the O’Connor Foundation which benefit the medically underserved or other vulnerable populations of San Joaquin County. This commitment shall be limited to the amount of net sale proceeds that exceeds \$10 million.

ST. DOMINIC'S HOSPITAL PROGRAMS AND SERVICES

Profile and Key Statistics

St. Dominic's Hospital is a 99 licensed bed general acute care hospital located at 1777 West Yosemite Avenue, Manteca, California 95337. The physical plant is roughly 77,000 square feet, located on approximately 35 acres of land.

Statistical Profile

Until 2004, St. Dominic's Hospital was licensed for 77 beds as follows:

16	Unspecified general acute care
6	Intensive care
5	Perinatal (obstetric)
50	Skilled nursing (distinct part)

In 2004, CHW management reports that 12 skilled nursing beds were converted to general acute care and an additional 22 beds that were previously unlicensed were added bringing the total hospital license to 99 beds (38 skilled nursing and 61 general acute). Additionally, 2 unspecified general acute beds were converted to perinatal, bringing the total perinatal complement to 7 beds. SDH has 10 emergency operating stations (beds) and 4 operating rooms.

ST. DOMINIC'S HOSPITAL Fiscal Year 2004 Key Statistics¹	
Inpatient Discharges	1,848
Patient Days	19,907
Occupancy (on 99 beds)	55.1%
Outpatient Visits	42,578
Average Length of Stay ("ALOS") (Overall hospital services)	10.8
ALOS (General acute)	2.9
Emergency Visits	18,535
Total Surgeries	1,886 (81% outpatient)
Obstetric Deliveries	320
Active Physicians on Medical Staff	55
Number of Employees	316
Source: SDH	

¹ SDH's fiscal year ends June 30th.

Programs and Services

St Dominic's Hospital is a community hospital that offers the following primary and secondary services:

- 24 hour emergency services
- A helipad
- Medical, surgical and intensive care/critical care services
- Pulmonary and cardiac rehabilitation services
- Obstetrical and gynecological services
- Physical, speech, hand and occupational services
- Diagnostic imaging and mammography services (including ultrasound, CT scan, MRI, nuclear medicine, fluoroscopy, portable X-ray, and mammography)
- Skilled nursing/transitional care
- Pain management
- Laboratory services
- Outpatient dietician

St. Dominic's Hospital does not offer the following services:

- Inpatient burn care
- Cardiovascular surgery
- Neonatal or pediatric intensive care
- Mental health or chemical dependency services
- Inpatient rehabilitation unit
- Transplant services
- Complex surgeries – neurosurgery, spine surgery, multi-systemic procedures
- Trauma services (not a designated trauma center)

The following table illustrates volume and capacity trends at SDH for fiscal years 2000 through 2004.

ST. DOMINIC'S HOSPITAL - SERVICE VOLUMES						
FISCAL YEARS	2000	2001	2002	2003	2004 ⁽²⁾	Change
PATIENT DAYS						
ICU/CCU	1,727	1,146	1,084	1,177	1,174	-32.0%
Med/Surg	2,621	3,407	3,215	3,337	3,243	23.7%
Perinatal Birthing Center	1,047	1,075	1,030	928	756	-27.8%
Skilled Nursing	16,255	16,917	17,361	17,562	14,734	-9.4%
Total	21,650	22,545	22,690	23,004	19,907	-8.1%
DISCHARGES						
ICU/CCU	587	312	376	410	240	-59.1%
Med/Surg	889	1,255	1,077	1,063	1,215	36.7%
Perinatal Birthing Center	524	531	494	427	345	-34.2%
Skilled Nursing	130	91	95	180	48	-63.1%
Total	2,130	2,189	2,042	2,080	1,848	-13.2%
OCCUPANCY						
ICU/CCU	78.9%	52.3%	49.5%	53.7%	53.6%	-32.0%
Med/Surg	44.9%	58.3%	55.1%	57.1%	55.5%	23.7%
Perinatal Birthing Center	57.4%	58.9%	56.4%	50.8%	41.4%	-27.8%
Skilled Nursing	89.1%	92.7%	95.1%	96.2%	80.7%	-9.1%
Total	77.0%	80.2%	80.7%	81.9%	70.8%	-0.3%
OTHER SERVICES						
Outpatient Visits ⁽¹⁾	20,192	26,443	51,254	50,869	42,578	110.9%
I/P Surgeries	501	512	513	479	359	-28.3%
O/P Surgeries	1,303	1,507	1,551	1,632	1,527	-59.6%
Deliveries	500	505	469	408	320	-36.0%
ER Visits	14,791	16,231	16,798	18,610	18,535	25.3%
Sources: OSHPD Disclosure Report (fiscal years ending 6/30)						
⁽¹⁾ Includes non-admitted ER visits.						

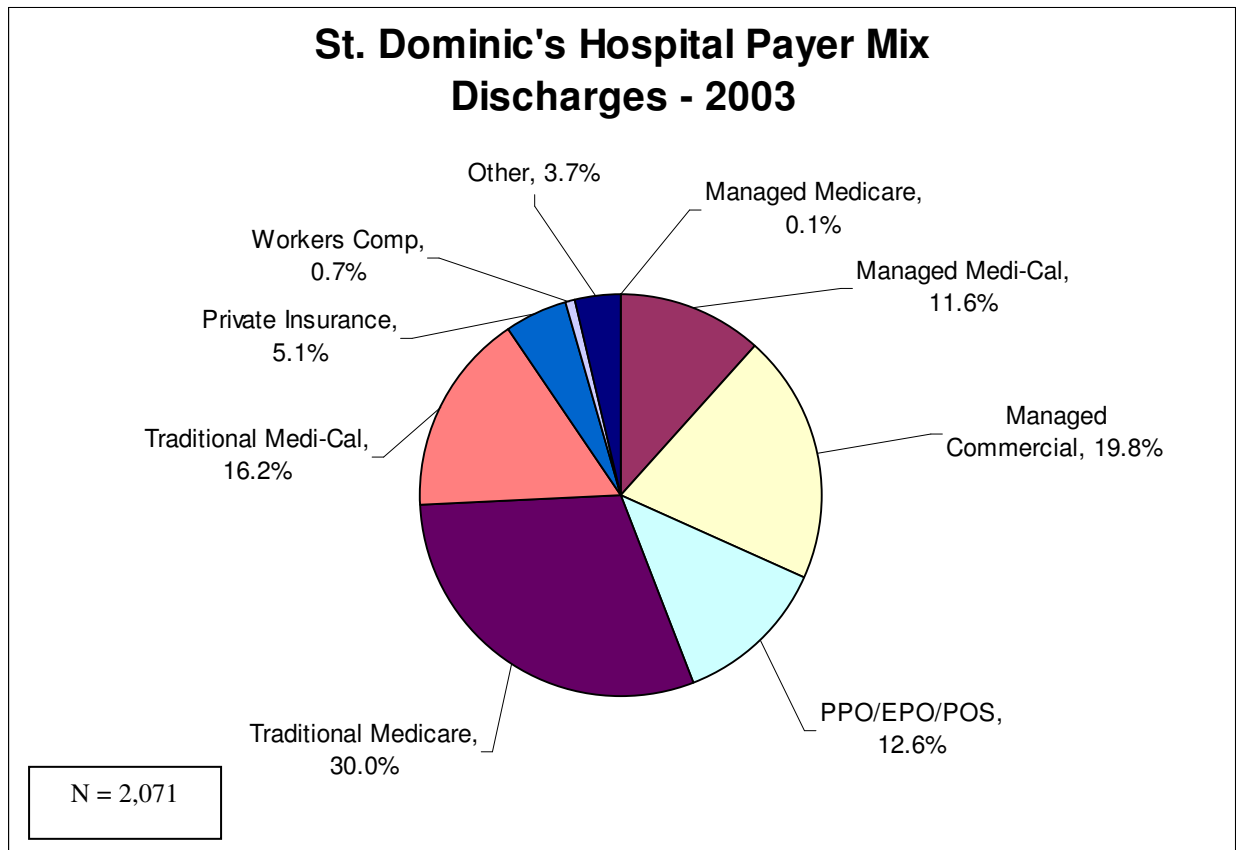
- 2) Note: Bed counts by unit did not change from 1999-2003. During 2004, 12 beds were converted from skilled nursing to medical/surgical use. Additionally, 22 beds were added to the license resulting in a total change of licensed beds in 2004 from 77 to 99. For comparison purposes, 2004 occupancy rates are calculated based upon 2003 licensed status. Based upon the increased bed licensure for 2004, the overall hospital occupancy rate would have been 55.1% and individual service occupancy rates would also have been different.

Our review of historical utilization trends supports the following conclusions:

- Discharges and patient days at SDH were relatively flat from 2001-2003 then dropped substantially in FY 2004.
- During FY 2004, SDH averaged approximately 54 inpatients per day, 14 of which were acute care patients (medical/surgical, OB, critical care) and 40 were skilled nursing/sub-acute. From our experience, very few hospitals with a patient mix of this type (low acute, high long-term care) are able to remain profitable for a sustained period. Because of the high occupancy of the skilled nursing unit, the overall occupancy rate of the Hospital was relatively high (approximately 71%).
- The average daily census and occupancy rate for medical/surgical and ICU/CCU units has been relatively low with occupancy rates below 56%.
- Obstetrical deliveries have been decreasing (28% from FY 2000 to 2004). 320 deliveries per year is very low for a hospital program, to the point where quality and cost-effectiveness can be difficult to maintain.
- Outpatient visits more than doubled over the five year period.
- Emergency room visits have increased significantly which is a statewide trend. With 10 emergency department beds, SDH is able to accommodate its current annual visit volume (18,535 in FY 2004) without unreasonable waiting times, delayed admissions, or going on diversion. We estimate that SDH's ED is operating between 75-80% of available capacity.
- Unlike overall statewide hospital trends, SDH's inpatient surgeries have declined significantly over the five year time period (28% from FY 2000 to 2004) as a result of losses of medical staff and increasing competition.
- In line with California trend, outpatient surgical volume has increased over the five year period (60%).
- SDH has substantial available capacity to increase surgical volume within its 4 operating rooms.

Payer Mix

Medicare (30.0%) and Medi-Cal (27.8%) are the largest single payers for SDH. Approximately 30% of patients at the Hospital are insured through private pay HMOs or PPOs which is relatively low compared to most community, non-government hospitals. The percentage of self-pay patients is extremely low.



*Other includes self-pay, workers' compensation, CHAMPUS, indigent, and "other government".

Note: Only 12 discharges were indigent patients

Source: OSHPD Patient Discharge Study (Excludes normal newborns DRG 391)

Medical Staff

There are 55 active physicians on the medical staff, which is a small staff compared to hospitals statewide. Numerous specialties are not represented (see list below) indicating the relatively narrow service focus at SDH. Eighty-nine percent (89%) of SDH's active physicians are board certified which is a high percentage by industry standards.

ST. DOMINIC'S ACTIVE MEDICAL STAFF - 2004			
Specialty	Non-Hospital Based	Hospital Based	Total
Anesthesiology		2	2
Cardiology	6		6
Emergency Medicine		7	7
Gastroenterology	2		2
General/Family Practice	3		3
General Surgery	2		2
Internal Medicine	5		5
OB/Gyn	7		7
Hematology/Oncology	1		1
Oral Surgery	2		2
Ophthalmology	1		1
Orthopedic Surgery	1		1
Otolaryngology	1		1
Pathology		5	5
Pediatrics	3		3
Podiatry	2		2
Pulmonology	2		2
Radiology		2	2
Urology	1		1
Total	39	16	55

Source: SDH

Specialties which are not represented on the active medical staff include the following:

- Allergy
- Cardiovascular surgery
- Dermatology
- Endocrinology
- Infectious disease
- Nephrology
- Neurology
- Neurosurgery
- Perinatology
- Plastic surgery
- Psychiatry
- Thoracic surgery
- Vascular surgery

Financial Profile

ST. DOMINIC'S FINANCIAL AND RATIO ANALYSIS (FISCAL YEAR)						California Median 2002*
	1999	2000	2001	2002	2003	
Patient Days	17,911	21,650	22,545	22,690	23,004	
Discharges	1,942	2,130	2,189	2,042	2,080	
ALOS	9.2	10.2	10.3	11.1	11.1	
Net Operating Revenue	\$18,822,363	\$22,973,290	\$25,922,261	\$27,343,156	\$29,112,518	
Operating Expense	\$20,546,218	\$23,192,041	\$25,426,513	\$28,566,233	\$32,572,222	
Net from Operations	-\$1,723,855	-\$218,751	\$495,748	-\$1,223,077	-\$3,459,704	
Net Non-Operating Rev.	\$55,283	\$7,890	\$68,510	\$6,180	\$34,609	
Net Income	-\$1,668,572	-\$210,861	\$564,258	-\$1,216,897	-\$3,425,095	
Current Asset Debt Ratio	0.95	1.83	1.75	1.30	1.26	1.43
Days in A/R	74.8	65.5	89.7	89.1	63.83	71.5
Bad Debt Rate	2.4%	1.3%	1.8%	2.3%	3.5%	5.2%
Operating Margin	-9.2%	-1.0%	1.9%	-4.5%	11.9%	1.1%
Sources: *Summary of OSHPD Disclosure Reports SDH OSHPD Disclosure Reports (fiscal years ending 6/30).						

SDH has reported a loss in net income for four out of the past five fiscal years with a cumulative loss of \$6.13 million on operations. While the Hospital's net operating revenue has increased 12% over the past three years, operating expenses have increased 28%. Rising costs associated with mandatory nurse staffing ratios, worker's compensation insurance, and supply costs have largely driven cost increases. The current ratio (current assets divided by current debts) has dropped each of the previous three years and reflects the deteriorating financial performance of the Hospital. The current ratio is used as a measure of SDH's declining ability to cover debts that are due and payable.

While SDH's bad debt rate (i.e. write-offs) is relatively low and days in accounts receivable improved dramatically in 2003, operating losses almost tripled from FY 2002 to 2003. This appears to be mainly attributable to the large increase in operating expenses.

Cost of Services

The cost of services for both inpatients and outpatients was calculated for the past five years. Two-thirds of costs (and 60% of discharges) at SDH are for Medicare and Medi-Cal patients. On a per discharge basis, the cost to treat Medi-Cal patients is substantially higher than other payer groups. This is probably because many of the Medi-Cal patients are long-term patients in the sub-acute unit.

SDH COST OF SERVICES - BY PAYER CATEGORY					
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Operating Expenses	\$20,546,218	\$23,192,041	\$25,426,513	\$28,566,233	\$32,572,222
Cost of Services By Category					
Medicare	\$3,187,291	\$5,691,199	\$5,115,934	\$7,081,363	\$7,091,826
Medi-Cal	\$8,916,031	\$10,048,400	\$11,793,494	\$11,316,612	\$14,246,392
Other Indigent	\$0	\$0	\$0	\$33,467	\$59,774
Third Party	\$7,376,307	\$6,287,554	\$7,608,661	\$9,448,969	\$10,021,237
Other	\$1,066,589	\$1,164,887	\$908,424	\$685,822	\$1,152,993

Source: OSHPD Disclosure Reports, SDH's fiscal years ends 6/30.

FY 2003 COSTS BY PAYER (OVERALL AND PER DISCHARGE)		
Payer	% of Total Costs	Cost per Discharge
Medicare	21.8	\$11,221
Medi-Cal	43.7	\$22,758
Third-Party (HMO/PPO/Commercial)	30.8	\$12,750
Indigent	0.2	\$4,981

Charity Care

Because individual hospital reports of charity care charges often differ, MDS attempted to measure the five year trend of charity care charges from various sources. However, SDH does not have its own audited financial statements, but rather it reports as part of consolidated audited financial statements for the regional division of CHW.

MDS therefore relied on the final OSHPD reports and the OSHPD website which stated the same charity care charges for the five fiscal year period as follows:

- 1999 total charity care charges: \$199,412
- 2000 total charity care charges: \$68,073
- 2001 total charity care charges: \$217,178
- 2002 total charity care charges: \$473,313
- 2003 total charity care charges: \$336,078

The last three years of charity care as reported to OSHPD represent an average annual amount of \$258,811 in charges. SDH's charity care expenditures, as a percentage of total charges, are low compared to other community hospitals with emergency departments in California.

In fiscal year 2003, the cost of charity care, estimated by applying SDH's overall ratio of its costs to its charges, was \$75,188. The average for the three years, 2001-2003, was \$80,233.

COST OF CHARITY CARE TO ST. DOMINIC'S HOSPITAL				
Year	SDH Charity Care Charges (1)	Cost to Charge Ratio	Cost of Charity Care to SDH	Percent of Total Costs Represented by Charity Care
2003	\$336,078	22.4%	\$75,188	0.2%
2002	\$473,313	23.6%	\$111,599	0.4%
2001	\$217,178	24.8%	\$53,913	0.2%
2000	\$68,073	26.5%	\$18,024	0.1%
1999	\$199,412	28.3%	\$56,502	0.3%

(1) Charity Care charges are based on final OSHPD figures.

A five year trend of charity care by type of service was provided by SDH as shown below:

CHARITY CARE BY SERVICE				
St. Dominic's Hospital - 1999 to 2003				
	By Department			
	Inpatient	Outpatient	Emergency Room	Total Charges
2003:				
Charges	\$282,241	\$20,740	\$33,097	\$336,078
Cases/Visits	18	5	6	
2002:				
Charges	\$461,546	\$5,884	\$5,883	\$473,313
Cases/Visits	24	10	10	
2001:				
Charges	\$173,953	\$23,861	\$19,364	\$217,178
Cases/Visits	18	16	13	
2000:				
Charges	\$49,632	\$5,301	\$13,140	\$68,073
Cases/Visits	4	13	14	
1999:				
Charges	\$187,047	\$8,351	\$4,014	\$199,412
Cases/Visits	11	15	5	
Source: St. Dominic's Hospital				

The proportionate amount of inpatient charity care to outpatient and emergency care was very high compared to most community hospitals. SDH management explains that this is probably because some long-term care patients on the skilled nursing unit eventually lose insurance or government reimbursement coverage subsequently and qualify for charity care.

Community Benefit Services

As required by California Senate Bill 697, SDH completed community benefit plans or updates for each year since 1999. These plans are based on the results of the San Joaquin County Needs Assessment Task Force recommendations for each year. The priorities for healthcare improvement identified in the 2002/2003 Community Benefit Plan relate to the following:

- Child Abuse
- Prenatal Care
- Access for Seniors

The SDH Community Benefit Plans report a number of programs and activities with a total economic value averaging \$29,693 per year including the following:

- Baby Track Program – SDH implemented the Baby Track Program to remind mothers of the immunizations their babies need via a telephone call.
- Domestic Violence Program – This program provides education to responders to domestic violence (including the Manteca Police Department, SDH's emergency and maternity departments, the Manteca Fire Department, and Doctor's Hospital of Manteca). Through this educational program, primary responders are able to better understand and identify victims of domestic violence, address victims' needs, and effectively report domestic violence incidences to local authorities.
- Breast Health Program – This program provides education about breast health and improves access to care.
- Every 15 Minute Program – Program to prevent teenage alcohol related accidents.
- Certified Nursing Assistant Program – Support for training programs.
- Neighbors in Health – SDH co-sponsored this program with Kaiser which focuses on the medically uninsured, particularly children.
- Community Education – Programs for diabetes and heart care.

None of these programs were valued at over \$10,000 per year for more than a year. SDH also reports the following community specific benefit activities that had costs in excess of \$10,000:

FISCAL YEAR	PROGRAM	COST
2004	Sponsorship of Manteca Visitors and Convention Center	\$12,094
2003	UOP Pharmacy Clerkship	\$32,640
2001	Paramedic Training Preceptorship	\$16,320

PROFILE OF KAISER FOUNDATION HOSPITALS

Founded in 1945, Kaiser is one of the largest not-for-profit healthcare companies in the U.S., serving over 8 million members and reporting annual operating revenues of over \$22 billion. Kaiser currently owns and operates 30 hospitals, most of which are located in California. SDH would be the first hospital that Kaiser owns or operates in San Joaquin County. Kaiser's stated mission is "to provide affordable, high quality healthcare services and improve the health of our members and the communities we serve."

As a health maintenance organization, Kaiser largely provides services to its pre-enrolled members with its own hospitals and medical groups in an integrated healthcare system. With a strong commitment to social purpose, Kaiser is active within the communities it serves, providing affordable healthcare and stressing the importance of preventative medicine, patient education and primary care.

In 1985, Kaiser began providing healthcare in San Joaquin County with ten physicians and an enrollment of 4,000 members. As its membership has grown, Kaiser has built medical offices in both Stockton and Manteca with plans to expand these offices as well as build additional offices in Modesto and Tracy in the near future. Currently, Kaiser's membership in the San Joaquin Valley is approximately 144,000. A hospital is also being planned for Modesto to serve area Kaiser membership. Kaiser's California facilities are summarized in the table below.

PROFILE OF KAISER CALIFORNIA FACILITIES	
Facilities	26
Licensed Beds	6,628
Beds Available	6,578
Patient Days	1,504,599
Discharges	359,301
Occupancy Rate	62.7%
Average Length of Stay	4.2
Outpatient Visits	959,036
Emergency Room Visits	208,228
Inpatient Surgeries	106,052
Outpatient Surgeries	189,572
Source: Summary of OSHPD financial Disclosure Statements, CY 2002	

Charitable Care and Community Involvement

Kaiser sponsors various grant, educational and service programs for the community. Kaiser offers health plan memberships at low or no cost to vulnerable populations who would otherwise be uninsured by providing funding through two dues subsidy programs in California:

- Kaiser Permanente Child Health Plan – This plan serves children (birth through 18) who are uninsured because they have no access to employer-sponsored health coverage and are ineligible for public programs due to family income or immigration status. Kaiser collaborates with the State, schools and other community partners to enroll eligible children in the Child Health Plan which provides inpatient and outpatient services, prescription drugs, and dental and vision care with low or no co-pay.
- Steps Plan – This plan provides medical coverage to financially needy individuals who are ineligible for coverage through other subsidized private or public programs. Subscribers enrolled in either Steps Plan 20, 40, 60, or 80 pay graduated or “stepped” percentages of the Individual Health Plan monthly premium. Subscribers are re-screened each year for eligibility purposes and must move to the next Step Plan level independent of family income changes.

Kaiser also offers financial assistance through its Medical Financial Assistance Program. This program provides healthcare services for members and non-members who cannot afford their healthcare expenses. This program is available for those individuals with the greatest financial need who are approved for up to six months of assistance with the possibility of an extension dependent upon an individual’s specific case.

HEALTHCARE SERVICE AREA DESCRIPTION

Service Area Definition

A hospital service area is usually defined as those ZIP Codes from which a hospital receives approximately 80% of its discharges. Approximately 84% of SDH's discharges are from the 8 ZIP Codes in the following table. These ZIP Codes represent a large geographical area, although almost two-thirds of discharges are from the City of Manteca and another 10% are from Lathrop. SDH draws fewer patients outside of Manteca and Lathrop.

ST. DOMINIC'S HOSPITAL						
Service Area Patient Origin and Market Share - 2003						
ZIP	City	SDH Discharges	Patient Origin	Cumulative Pt Origin	Total Discharges from ZIP	SDH Market Share
95336	Manteca	826	39.9%	39.9%	4,658	17.7%
95337	Manteca	452	21.8%	61.7%	2,010	22.5%
95330	Lathrop	201	9.7%	71.4%	1,138	17.7%
95366	Ripon	84	4.1%	75.5%	1,144	7.3%
95206	Stockton	68	3.3%	78.8%	6,009	1.1%
95231	French Camp	44	2.1%	80.9%	459	9.6%
95376	Tracy	35	1.7%	82.6%	4,765	0.7%
95320	Escalon	29	1.4%	84.0%	1,095	2.6%
ALL OTHER		332	16.0%	100.0%		
TOTAL		2,071	100.0%			

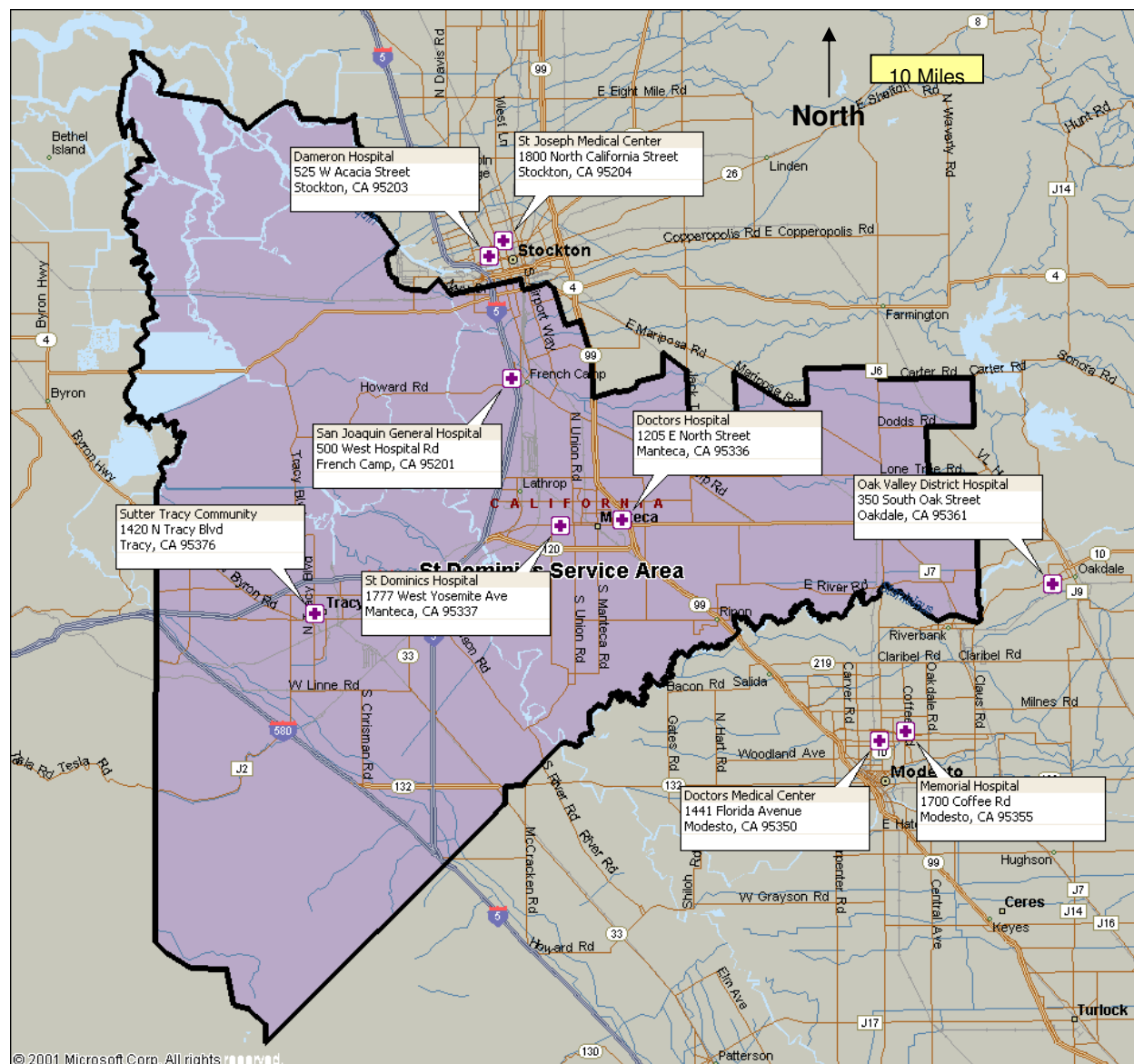
Source: OSHPD (excludes normal newborn DRG 391)

SDH has a relatively strong market share in Manteca and Lathrop and has a much lower market share in Tracy, Stockton, and Escalon.

Service Area Map

The map below depicts SDH's service area. Manteca is 76 miles due east of San Francisco in the San Joaquin Valley. It is roughly midway between Stockton (north) and Modesto (south) on State Highway 99. The city limits cover approximately 15 square miles and the entire service area is roughly 720 square miles.

ST. DOMINIC'S HOSPITAL – SERVICE AREA



Demographic Profile

The service area has a total population of 231,742 (2004 estimate). It is projected to grow by 19.3% over the next five years which is almost three times greater than the projected growth rate for the state as a whole.

SERVICE AREA DEMOGRAPHICS (2004 & 2009)			
	2004	2009	% Change
Population			
Total Population	231,742	276,552	19.3%
Households	69,883	83,353	19.3%
Ave. Household Size	3.32	3.32	
Source: Claritas			

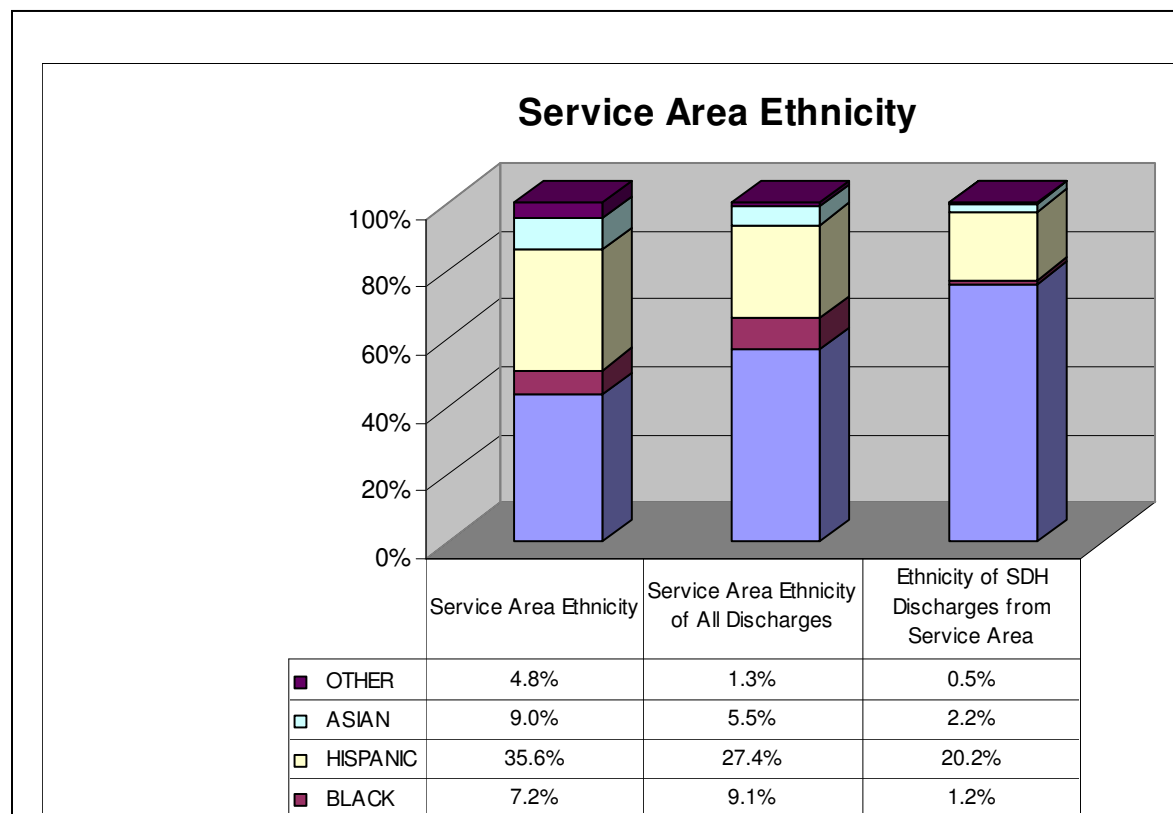
The average age of the service area population is 32.5 years which is slightly younger than the State of California as a whole (33.7). “Baby boomers” (45-64) and seniors are projected to grow twice as fast as other age cohorts over the next five years. As a result, women of child bearing age (15-44) and children (0-14) will decrease as a percentage of the total population.

SERVICE AREA DEMOGRAPHICS (2004 & 2009)				
	2004	2009	% Change ('04-'09)	
Age Distribution			Service Area	State
Age 0-14	26.5%	25.6%	15.1%	3.3%
Age 15-44	45.9%	44.5%	15.4%	3.8%
Age 45-64	19.3%	20.9%	29.4%	13.8%
Age 65+	8.3%	9.1%	29.7%	11.7%
Female 15-44	22.4%	21.6%	15.3%	3.3%
Average Age	32.5	33.4		
Source: Claritas				

The service area is multiethnic with large White and Hispanic populations. The White population is expected to decline as a percentage of the total population over the next five years. The percentages of the Black, Hispanic and Asian population are expected to grow.

SERVICE AREA DEMOGRAPHICS (2004 & 2009)			
	2004	2009	% Change
Ethnicity			
White	43.5%	38.3%	-11.9%
Black	7.2%	8.1%	12.2%
Hispanic	35.6%	38.6%	8.4%
Asian	9.0%	9.5%	6.4%
Other	4.8%	5.5%	14.8%
Source: Claritas			

The following chart compares service area ethnicity, service area discharges by ethnicity, and SDH's discharges by ethnicity. The chart shows that SDH has served a proportionately larger percent of the White population and a disproportionately lower proportion of other ethnic groups.



The average household income (aggregate household income divided by total households) is \$63,915 and is projected to grow by over 15% in the next five years. The median household income is slightly above that for the State as a whole. Approximately 11% of households are below the federal poverty level (\$15,260 for a family of three in 2004).

SERVICE AREA DEMOGRAPHICS (2004 & 2009)			
	2004	2009	% Change
Household Income Distribution			
\$0 - 14,999	11.1%	9.3%	-16.1%
\$15,000 - 24,999	9.5%	7.9%	-16.7%
\$25,000 - 34,999	11.0%	9.3%	-15.6%
\$35,000 - 49,999	14.8%	14.3%	-3.8%
\$50,000 - 74,999	21.9%	20.4%	-6.8%
\$75,000 - 99,999	15.4%	15.6%	1.5%
\$100,000 - 149,999	11.8%	16.3%	38.6%
\$150,000 +	4.6%	6.9%	51.7%
Average HH Income	\$63,915	\$73,584	15.1%
Source: Claritas			

Area Payer/Insurance Mix

- An estimated 19% of the area's population does not have health insurance.
- As shown below, approximately 16% of area residents are insured through Medi-Cal.

ST. DOMINIC'S HOSPITAL Service Area Medi-Cal Eligibles				
ZIP	City	Medi-Cal Eligibles	Total Population 2004	Percent of Population
95336	Manteca	5,045	43,956	11.5%
95337	Manteca	3,020	24,844	12.2%
95330	Lathrop	1,974	13,115	15.1%
95366	Ripon	1,015	14,616	6.9%
95206	Stockton	17,522	58,270	30.1%
95231	Fench Camp	993	5,315	18.7%
95376	Tracy	5,813	59,275	9.8%
95320	Escalon	1,395	12,351	11.3%
TOTAL		36,777	231,742	15.9%
Sources: DHS Website (as of Oct. 2003), Claritas				

- As shown in the following table, approximately 10% of the population is Medicare eligible with 21% of enrollees in a managed care plan. Almost all seniors enrolled in managed care plans are members of Kaiser.

ST. DOMINIC'S HOSPITAL				
Service Area Medicare Eligible and Enrolled				
ZIP	City	Eligibles	Kaiser Enrolled	Market Penetration
95336	Manteca	4,936	1,090	22.1%
95337	Manteca	2,224	545	24.5%
95330	Lathrop	1,136	224	19.7%
95366	Ripon	1,805	540	29.9%
95206	Stockton	5,273	789	15.0%
95231	Fench Camp	464	25	5.4%
95376	Tracy	4,124	642	15.6%
95320	Escalon	1,651	588	35.6%
TOTAL		21,613	4,443	20.6%
Sources: Centers for Medicare and Medicaid Services (as of March, 2004)				

Selected Health Indicators¹

Access to healthcare and health insurance are important issues, with approximately 72,800 uninsured children and adults residing in San Joaquin County. Approximately 18.8% of the non elderly adult population is uninsured in San Joaquin County compared to 18.2% in California. Roughly 16% of the non elderly adult population in San Joaquin County is covered by Medi-Cal.

A review of health status indicators for San Joaquin County (deaths, diseases, and births) reveals the following conclusions:

- The area faces some challenges related to obstetrics and prenatal care (Refer to Table A).
 - The birth rate to adolescents is very high. The majority of teen births are to mothers of Hispanic ethnicity.
 - The percentage of mothers with no or late prenatal care is extremely high (27.3% compared to 14.5% for California)
 - The infant mortality rate (6.3 per 1,000 births) is higher than the State rate (5.5) and national goal (4.5)
 - The percentage of low birth weight infants is higher (6.5%) than the national goal (5.0%)
- The overall mortality rate is the same as the State mortality rate (Refer to Table B). Chronic diseases are the main cause of death with heart disease and cancer accounting for almost half the mortality. Cerebrovascular disease and diabetes have higher death rates in San Joaquin County than State averages and are significantly above national goals.
- Chlamydia is the most frequently reported disease in the county and exceeds the incidence rate for California. The rates of incidence of AIDS and TB have declined with AIDS incidence rate below the state rate (Refer to Table C).

¹ California Department of Health Services, The State of Health Insurance in California, UCLA Center for Health Policy Research

The California Department of Health Services reports the following regarding San Joaquin County's health status for 2004:

TABLE A: NATALITY STATISTICS 2004			
	San Joaquin County	California	National Goal
Low Birth Weight Infants	6.5%	6.3%	5.0%
Late or no Prenatal Care	27.3%	14.5%	10.0%
Birth Rate to Adolescents (per 1,000 births)	57.1	45.0	N/E
Infant Mortality Rate (per 1,000 births)	6.3	5.5	4.5

TABLE B: MORTALITY STATISTICS, 2004			
Rate per 100,000 Population			
Selected Cause	San Joaquin County	California	National Goal
Cancer	166.0	172.7	159.9
Heart Disease	177.0	186.0	166.0
Cerebrovascular Disease	65.1	58.9	48.0
Unintentional Injuries	38.1	27.6	17.5
Diabetes	24.7	21.0	N/A
Suicide	9.7	9.5	5.0
Drug-Related Deaths	11.2	8.6	1.0
All Causes	744.8	745.0	N/E

TABLE C: MORBIDITY STATISTICS, 2004			
Incidence Rate per 100,000 Population			
Health Status Indicator	San Joaquin County	California	National Goal
Hepatitis C	.17	.27	1.0
AIDS	9.82	15.23	1.0
Tuberculosis	9.83	9.27	1.0
Chlamydia	358.92	291.09	N/A

Hospital Supply, Demand and Market Share

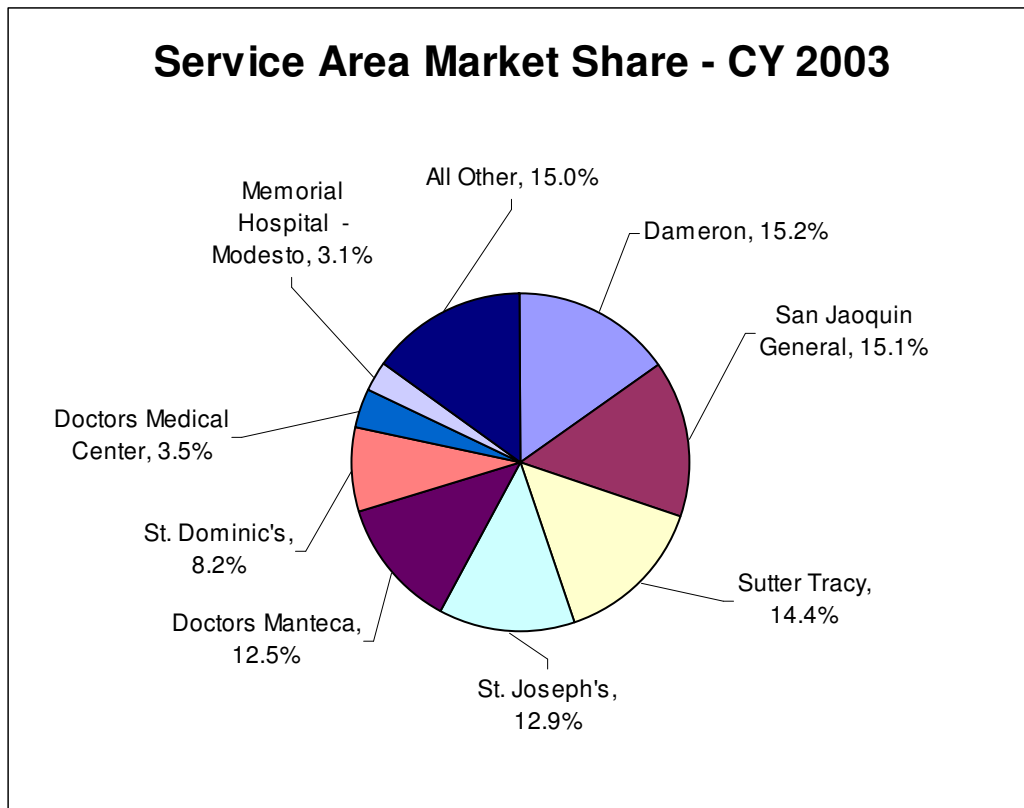
There are four hospitals within SDH's service area including SDH. Doctor's Hospital of Manteca (73 beds) is the only other hospital in Manteca and is located approximately three miles from SDH. San Joaquin General Hospital (196 beds) and Sutter Tracy Community Hospital (79 beds) are the next closest facilities, 10 and 12 miles from SDH respectively.

The following pages analyze the services at SDH and other local hospitals. These hospitals were the primary facilities analyzed to determine the service capacity in the area.

Area Hospitals - 2003							
Facility	Ownership/Affiliation	City	Licensed Beds	Available Beds	Patient Days	Occupancy Percentage*	Miles from SDH
Facilities within Service Area:							
ST. DOMINIC'S HOSPITAL	CHW/Not For Profit	Manteca	77	77	19,907	70.8%	-
DOCTORS HOSPITAL OF MANTECA	Tenet/For Profit	Manteca	73	73	15,571	58.4%	2.9
SAN JOAQUIN GENERAL HOSPITAL	County	French Camp	196	196	50,711	70.9%	10.1
SUTTER TRACY COMMUNITY HOSPITAL	Sutter Health/Not For Profit	Tracy	79	79	15,538	53.9%	12.5
Subtotal			425	425	101,727	65.6%	
Other Local Facilities:							
DAMERON HOSPITAL ASSOCIATION	Dameron Hosp Assoc./Not For Profit	Stockton	188	188	56,443	82.3%	16.3
ST. JOSEPH'S MED CTR OF STOCKTON	CHW/Not For Profit	Stockton	294	294	84,461	78.7%	16.6
DOCTORS MED CTR OF MODESTO	Tenet/For Profit	Modesto	465	458	106,670	63.8%	19.8
MEMORIAL MED CTR	Memorial Hosp. Assoc./Not For Profit	Modesto	311	308	92,594	82.4%	20.4
OAK VALLEY DISTRICT HOSPITAL	District/CHW/Not For Profit	Oakdale	150	150	45,985	84.0%	24.0
Subtotal			1,408	1,398	386,153	75.7%	
Total			1,833	1,823	487,880	73.3%	

* Occupancy based on available beds
Source: OSHPD Disclosure Reports (most recent closed fiscal year), SDH, Mapquest.

- In 2003, there were 21,278 total inpatient discharges from the SDH service area.
- St. Dominic's Hospital ranks sixth in market share within the service area (8.2%).
- Dameron Hospital (15.2%) and San Joaquin Hospital (15.1%) are the market leaders. Currently, Kaiser enrollees are mainly treated at Dameron Hospital. Hence, it is anticipated that there will be some patient redirection from Dameron Hospital to SDH if the sale to Kaiser is approved.
- Sutter Tracy Community Hospital had 14.4% market share.



Source: OSHPD Discharge Abstracts

MARKET SHARE BY PAYER - 2003
St. Dominic's Hospital Service Area

Hospital	Discharges	Traditional		Managed Care			PPO/EP O/POS	Private Insurance	Workers Comp	Self- Pay	County Indigent	Other Indigent	Other	Total
		Medicare	Medi-Cal	Medicare	Comm- ercial	Medi- Cal								
DAMERON HOSPITAL	3,240	6.7%	11.4%	70.3%	33.2%	0.0%	0.0%	8.9%	16.3%	2.6%	0.4%	0.0%	1.2%	15.2%
SAN JOAQUIN GENERAL HOSPITAL	3,222	8.1%	36.7%	0.0%	0.0%	40.3%	0.0%	18.4%	6.0%	53.9%	51.8%	27.3%	26.9%	15.1%
SUTTER TRACY COMMUNITY HOSPITAL	3,071	19.8%	13.6%	0.0%	9.4%	6.4%	27.0%	24.0%	16.9%	8.3%	0.0%	0.0%	12.3%	14.4%
ST. JOSEPH'S MEDICAL CENTER	2,746	21.1%	11.7%	0.7%	8.3%	22.4%	11.1%	14.3%	6.0%	9.2%	1.1%	0.0%	0.0%	12.9%
DOCTORS HOSPITAL OF MANTECA	2,657	18.2%	7.6%	0.0%	13.6%	6.4%	21.0%	4.6%	2.4%	5.8%	0.0%	0.0%	34.5%	12.5%
ST. DOMINIC'S HOSPITAL	1,739	9.8%	8.6%	0.1%	6.5%	17.6%	9.8%	8.4%	7.2%	5.6%	0.0%	0.0%	0.0%	8.2%
DOCTORS MEDICAL CENTER	749	4.6%	1.8%	0.0%	2.9%	1.7%	8.8%	3.1%	6.6%	1.7%	0.1%	0.0%	5.8%	3.5%
MEMORIAL HOSPITAL - MODESTO	670	3.1%	0.4%	0.0%	5.4%	0.4%	6.4%	3.9%	7.2%	0.9%	0.0%	0.0%	0.0%	3.1%
ALL OTHER	3,184	8.5%	8.2%	28.9%	20.7%	4.9%	16.0%	14.3%	31.3%	12.0%	46.6%	72.7%	19.3%	15.0%
TOTAL	21,278	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
DISCHARGES		5,528	3,137	985	5,045	1,257	2,304	1,041	166	891	742	11	171	21,278

Source: OSHPD Patient Discharge Study, 2003



Denotes market share leader

- SDH is not the market share leader for any specific payer groups. The Hospital's largest market share is in Medi-Cal managed care (17.6%) and Medicare fee-for-service (9.8%).
- Dameron Hospital is the overall market share leader with a very high percentage of commercial and senior managed care patients.
- San Joaquin General Hospital, a county facility, receives the highest portion of Medi-Cal, self-pay and indigent patients.

- SDH is not the hospital market share leader for any individual service lines.
- SDH has a substantially higher market share across medical services than surgical services which reflects its primary care orientation.
- A substantial portion of the tertiary-level cases (e.g. open heart surgery, cancer) go to St. Joseph's Medical Center in Stockton.

MARKET SHARE BY SERVICE LINE - 2003											
Name	DISCHARGES	DAMERON HOSPITAL	SAN JOAQUIN GENERAL	SUTTER TRACY COMMUNITY HOSP	DOCTORS HOSPITAL OF MANTECA	ST. JOSEPH'S MEDICAL - STOCKTON	ST. DOMINIC'S HOSPITAL	DOCTORS MEDICAL CENTER	MEMORIAL HOSPITAL - MODESTO	ALL OTHER	TOTAL
COMPLICATED DELIVERY	1,088	18.7%	20.9%	13.5%	15.5%	9.3%	8.1%	5.0%	2.8%	6.3%	100.0%
HIGH-RISK NEWBORNS	526	22.1%	30.4%	4.8%	10.6%	8.4%	4.4%	8.6%	1.1%	9.7%	100.0%
MEDICAL - CARDIOVASCULAR	3,038	18.5%	12.5%	16.9%	14.8%	14.3%	11.3%	2.8%	2.3%	6.6%	100.0%
MEDICAL - GENITOURINARY	399	14.3%	14.5%	16.8%	16.8%	11.5%	11.0%	5.0%	2.5%	7.5%	100.0%
MEDICAL - NERVOUS SYSTEM	643	11.5%	18.0%	16.6%	11.7%	9.0%	11.4%	3.4%	3.0%	15.4%	100.0%
MEDICAL - RESPIRATORY	1,549	13.7%	13.2%	20.5%	14.7%	14.6%	11.9%	2.4%	2.8%	6.3%	100.0%
MEDICAL G_I_/ENDOCRINE	1,948	12.8%	15.3%	20.5%	15.0%	10.9%	11.0%	2.5%	2.5%	9.4%	100.0%
MEDICAL ORTHOPEDIC	335	15.8%	15.5%	17.3%	13.1%	10.1%	11.0%	4.8%	3.0%	9.3%	100.0%
NEOPLASIA	589	14.1%	12.9%	12.9%	13.1%	19.4%	6.5%	2.4%	3.6%	15.3%	100.0%
NORMAL DELIVERIES	2,352	20.9%	22.7%	13.4%	14.2%	9.1%	9.1%	2.8%	2.9%	4.9%	100.0%
NORMAL NEWBORNS	3,124	19.7%	21.0%	14.6%	15.1%	9.2%	9.3%	2.9%	3.3%	5.0%	100.0%
PEDIATRICS	899	16.0%	16.8%	12.9%	12.5%	16.0%	9.8%	1.1%	1.9%	13.0%	100.0%
SURGICAL - CARDIOVASCULAR	1,003	13.2%	2.7%	5.0%	0.7%	44.8%	0.1%	7.2%	6.7%	19.7%	100.0%
SURGICAL – ENT	108	12.0%	13.9%	9.3%	8.3%	16.7%	1.9%	0.0%	5.6%	32.4%	100.0%
SURGICAL - GENERAL/G_I_	986	13.2%	19.3%	16.4%	9.6%	10.2%	11.6%	3.1%	3.3%	13.2%	100.0%
SURGICAL - GENITOURINARY	351	17.1%	11.4%	17.7%	8.0%	19.4%	4.0%	5.7%	2.8%	14.0%	100.0%
SURGICAL - GYNECOLOGY	563	16.7%	9.6%	18.5%	12.3%	9.4%	5.5%	7.1%	6.4%	14.6%	100.0%
SURGICAL – NERVOUS SYSTEM	127	11.8%	7.1%	2.4%	3.1%	17.3%	0.8%	7.1%	3.1%	47.2%	100.0%
SURGICAL - OTHER	436	7.1%	10.1%	8.7%	32.3%	8.9%	2.3%	2.5%	4.8%	23.2%	100.0%
SURGICAL ORTHOPEDIC	1,128	22.9%	10.4%	14.6%	6.6%	8.8%	2.5%	7.2%	7.4%	19.7%	100.0%
ALL OTHER	2,794	7.8%	11.8%	9.7%	9.5%	8.2%	5.9%	2.0%	1.9%	43.1%	100.0%
TOTAL	23,986	15.9%	15.6%	14.4%	12.8%	12.5%	8.2%	3.5%	3.2%	13.8%	100.0%
DISCHARGES		3,809	3,741	3,464	3,071	2,990	2,001	831	761	3,318	23,986

Source: OSHPD Patient Discharge Study, 2003

- Approximately 50% of all hospital admissions of residents are at the four hospitals within the service area. Therefore, half of area residents requiring overnight hospitalization leave the area for care. Major reasons for this are as follows:
 - SDH, Doctor's Hospital of Manteca, and Sutter Tracy Community Hospital are small facilities with a somewhat limited array of services (e.g. no tertiary/quaternary level services).
 - The number of specialty physicians per capita in the area is low.
 - The vast majority of Kaiser enrollees are currently treated at Dameron Hospital or other out-of-area facilities.

SDH has a narrow array of services compared to other regional competitors. Dameron Hospital, Doctor's Medical Center of Modesto, St. Joseph's Medical Center, and Memorial Medical Center are all tertiary level hospitals. Except for sub-acute care to long-term ventilator patients, SDH does not provide any unique services in the region.

HOSPITAL COMPARATIVE SERVICE MATRIX									
Program/Service	ST. DOMINIC'S HOSPITAL	DOCTOR'S HOSPITAL OF MANTECA	SAN JOAQUIN GENERAL HOSPITAL	SUTTER TRACY COMMUNITY HOSPITAL	DAMERON HOSPITAL ASSOCIATION	ST. JOSEPH'S MEDICAL CENTER OF STOCKTON	DOCTOR'S MEDICAL CENTER OF MODESTO	MEMORIAL MEDICAL CENTER	OAK VALLEY DISTRICT HOSPITAL
Adult Day Care Program									
Alcohol-Drug Abuse or Dependency Inpatient									
Angioplasty					√	√	√	√	
Birthing Room-LDR Room-LDRP Room	√	√	√	√	√	√	√	√	√
Breast Cancer Screening-Mammography	√	√	√	√	√	√	√	√	√
Burn Care Services			√						
Cardiac Catheterization Laboratory			√		√	√	√	√	
Emergency Department	√	√	√	√	√	√	√	√	√
Extracorporeal Shock Wave Lithotripter (ESWL)		√					√		
Hemodialysis			√		√	√	√	√	
HIV-AIDS Services			√						
Home Health					√	√		√	
Magnetic Resonance Imaging (MRI)	√	√		√	√	√	√	√	√
Medical Surgical Intensive Care Services	√	√	√	√	√	√	√	√	√
Neonatal Intensive Care Services			√		√	√	√	√	
Obstetrics Services	√	√	√	√	√	√	√	√	√
Occupational Health Services	√		√	√	√	√	√	√	√
Oncology Services			√	√		√	√	√	
Open Heart Surgery					√	√	√	√	
Outpatient Surgery	√	√	√	√	√	√	√	√	√
Pain Management	√			√		√			
Pediatric Intensive Care Services			√						
Physical Rehabilitation Inpatient Services			√						
Physical Rehabilitation Outpatient Services	√	√	√	√	√			√	√
Positron emission tomography scanner (PET)									
Psychiatric Care									
Radiation Therapy						√		√	
Single Photon Emiss. Computerized Tomog.			√						
Skilled Nursing	√		√			√			√
Transplant Services									
Trauma Center (Certified)							√	√	
Source: American Hospital Association Guide - 2002/2003 and 2003/2004, Individual Hospital Disclosure Reports									

Medical/Surgical Services

SDH had a 57% occupancy rate for medical/surgical services in 2003. The rate is well below the rate for the average among area hospitals (73.5%). There is adequate bed capacity in the area to accommodate volume growth in the foreseeable future.

MEDICAL/SURGICAL SERVICES (2003)					
Facility	Miles from SDH	Discharges	Patient Days	Licensed Beds	
				Number	Occupancy
ST. DOMINIC'S HOSPITAL		1,063	3,337	16	57.1%
DOCTORS HOSPITAL OF MANTECA	2.9	1,557	6,994	60	31.9%
SAN JOAQUIN GENERAL HOSPITAL	10.1	3,927	19,597	65	82.6%
SUTTER TRACY COMMUNITY HOSPITAL	12.5	3,385	12,294	65	51.8%
DAMERON HOSPITAL ASSOCIATION	16.3	8,506	36,304	112	88.8%
ST. JOSEPH'S MED CTR OF STOCKTON	16.6	7,037	40,549	115	96.6%
DOCTORS MEDICAL CENTER OF MODESTO	19.8	7,099	27,022	165	44.9%
MEMORIAL MEDICAL CENTER	20.4	12,316	70,256	209	92.1%
OAK VALLEY DISTRICT HOSPITAL	24.0	1,523	5,714	24	65.2%
TOTAL		45,350	218,730	815	73.5%

Source: OSHPD Disclosure Reports (based on each hospital's most recent closed fiscal year).

Intensive Care

SDH has a small six bed critical care unit with a 53.7% occupancy rate. Area hospitals had an overall average occupancy rate of 67.5% in 2003, implying that there is substantial available capacity.

ADULT ICU/CCU SERVICES				
FACILITY	Miles from SDH	Licensed Beds	Pt. Days	Occupancy
ST. DOMINIC'S HOSPITAL		6	1,177	53.7%
DOCTORS HOSPITAL OF MANTECA	2.9	8	901	30.9%
SAN JOAQUIN GENERAL HOSPITAL	10.1	16	5,584	95.6%
SUTTER TRACY COMMUNITY HOSPITAL	12.5	8	1,608	55.1%
DAMERON HOSPITAL ASSOCIATION	16.3	24	7,938	90.6%
ST. JOSEPH'S MED CTR OF STOCKTON	16.6	29	8,970	84.7%
DOCTORS MEDICAL CENTER OF MODESTO	19.8	41	6,091	40.7%
MEMORIAL MEDICAL CENTER	20.4	35	9,528	74.6%
OAK VALLEY DISTRICT HOSPITAL	24.0	5	551	30.2%
TOTAL		172	42,348	67.5%

Source: OSHPD Disclosure Reports (based on each hospitals closed fiscal year).

Emergency Services

SDH's patient origin for emergency services is similar to that for all Hospital services (drawing over 60% of its patients from Manteca).

SDH PATIENT ORIGIN				
Emergency Room Visits - CY 2003				
ZIP	City	#	Visits	
			%	Cum. %
95336	Manteca	6,100	34.5%	34.5%
95337	Manteca	4,512	25.5%	60.1%
95330	Lathrop	2,234	12.6%	72.7%
95366	Ripon	647	3.7%	76.4%
95206	Stockton	561	3.2%	79.6%
95231	French Camp	297	1.7%	81.3%
95376	Tracy	249	1.4%	82.7%
95320	Escalon	166	0.9%	83.6%
ALL OTHER		2,896	16.4%	100.0%
TOTAL VISITS		17,662	100.0%	
Source: SDH				

SDH operates 10 emergency stations/beds with 18,535 visits in FY 2004 (twelve months ended June 30th). Compared to area hospitals and their patients, SDH's emergency patients have proportionately less severe medical conditions. An estimated 70-75% of SDH's emergency department visits could be treated in a physician's office or urgent care center based on the low severity of their illness or condition.

The American College of Emergency Physicians ("ACEP"), representing 22,000 members nationally, uses an estimated benchmark of 2,000 visits per emergency station/bed to estimate the capacity of emergency departments. Based upon this benchmark and adjusting for the low acuity of SDH emergency patients, the Hospital can probably accommodate an additional 4,000-5,000 visits per year without operational difficulty.

Similarly, five of the eight area hospitals also report visits per bed per year below the ACEP benchmark. Therefore, if the SDH emergency department remains open and utilized together with other hospitals there is enough emergency room capacity in the service area to absorb a significant amount of growth from population increases.

If, however, the SDH emergency department were closed or if patient volume were redirected as a result of acquisition by Kaiser, other area emergency rooms could have trouble accommodating the additional volume. In particular, Doctor's Hospital of Manteca, which is only 2.9 miles away, could be greatly impacted since it is operating at close to the ACEP benchmark already

and could potentially see a near doubling of its volume. In addition, the overall average visits/bed at area hospitals could go as high as 1,993, without allowing for population growth, which is very close to the 2,000 visits/bed capacity benchmark. Based upon the results of our analysis we conclude that the SDH's emergency department is needed for patient access to healthcare. It is also important that non-Kaiser patients continue to use the SDH emergency room.

Comparative Matrix Area Hospitals and Emergency Services											
HOSPITAL	Distance from SDH	2003 Emergency Department Statistics									
		Visits		Stations/ Beds	Visits/ Bed	% ED Visits		Low/ Mod		Severe w/o threat	Severe w/threat
		#	%			Admitted	Minor	Mod	Mod		
ST. DOMINIC'S HOS	-	18,647	6.8%	10	1,865	6.4%	42.5%	36.6%	17.8%	2.4%	0.8%
DOCTOR'S HOS OF MANTECA	2.9	19,290	7.0%	11	1,754	12.8%	16.8%	42.3%	19.6%	12.9%	8.4%
SAN JOAQUIN GEN HOS	10.1	0	0.0%	0	-	0%	0.0%	0.0%	0.0%	0.0%	0.0%
SUTTER TRACY COMMUNITY HOS	12.5	23,519	8.5%	9	2,613	7.0%	7.4%	38.0%	43.6%	8.7%	2.2%
DAMERON HOS	16.3	32,805	11.9%	13	2,523	17.8%	2.7%	25.7%	49.7%	17.4%	4.5%
MEMORIAL HOS (MODESTO)*	20.4	65,148	23.7%	39	1,670	14.3%	2.3%	43.1%	33.9%	16.8%	3.0%
OAK VALLEY DISTRICT HOS	24.0	18,469	6.7%	8	2,309	6.8%	1.4%	45.5%	33.5%	10.9%	8.7%
ST. JOSEPH MED. CTR. (STOCKTON)	16.6	40,756	14.8%	24	1,698	20.7%	27.8%	30.3%	29.2%	9.2%	3.4%
DOCTOR'S MED. CTR. (MODESTO)*	19.9	56,444	20.5%	34	1,660	13.4%	20.0%	34.5%	15.6%	12.0%	18.0%
		275,078		148	1,858						
* Indicates trauma center											
Source: ALIRTS Website;											

Note: San Joaquin General Hospital did not report data.

Obstetrical Services

OBSTETRICAL SERVICES - 2003					
FACILITY	Miles from SDH	Licensed Beds	Deliveries	Pt. Days	Occupancy
ST. DOMINIC'S HOSPITAL		5	408	928	50.8%
DOCTORS HOSPITAL OF MANTECA	2.9	5	423	1,078	59.1%
SAN JOAQUIN GENERAL HOSPITAL	10.1	26	2,350	5,859	61.7%
SUTTER TRACY COMMUNITY HOSPITAL	12.5	6	651	1,636	74.7%
DAMERON HOSPITAL ASSOCIATION	16.3	21	2,605	5,563	72.6%
ST. JOSEPH'S MED CTR OF STOCKTON	16.6	37	1,786	4,558	33.8%
DOCTORS MEDICAL CENTER OF MODESTO	19.8	57	2,615	7,259	34.9%
MEMORIAL MEDICAL CENTER	20.4	33	2,410	6,048	50.2%
OAK VALLEY DISTRICT HOSPITAL	24.0	6	273	785	35.8%
TOTAL		191	13,521	32,786	47.0%

Source: OSHPD Disclosure Reports (based on each hospitals closed fiscal year).

SDH's annual obstetric volume has declined steadily over the past five years with only 320 births in FY 2004. SDH's obstetric average daily census is only 2.5 which could easily be absorbed at any other area facility if Kaiser chose not to continue obstetrical services. Doctor's Hospital, which is only 2.9 miles away from SDH, would most likely receive SDH's obstetrics patients and at less than 60% occupancy would have sufficient capacity to serve these patients. Hence, the potential loss or transfer of this program would not have a significant negative impact on area patients.

Skilled Nursing/Sub-Acute

SDH's skilled nursing/sub-acute patients are mostly ventilator patients that tend to have long hospital stays. While the average length of stay for discharged patients for calendar year 2003 was 75 days, a few patients spend months or potentially even years in the facility. As shown below, SDH provides this service on a regional basis with over half of the patients coming from outside the service area.

SDH PATIENT ORIGIN				
Skilled Nursing Discharges - CY 2003				
ZIP	City	SDH Discharges	Patient Origin	Cumulative Patient Origin
95205	Stockton	6	6.7%	-
95206	Stockton	6	6.7%	13.3%
95210	Stockton	6	6.7%	20.0%
95209	Stockton	5	5.6%	25.6%
95207	Stockton	4	4.4%	30.0%
95351	Modesto	4	4.4%	34.4%
95203	Stockton	3	3.3%	37.8%
95204	Stockton	3	3.3%	41.1%
95240	Lodi	3	3.3%	44.4%
95336	Manteca	3	3.3%	47.8%
95337	Manteca	3	3.3%	51.1%
95376	Tracy	3	3.3%	54.4%
	ALL OTHER	41	45.6%	100.0%
	TOTAL	90		

Source: OSHPD Patient Discharge Study

Most of the patients qualify for Medicare or Medicaid coverage.

ST. DOMINIC'S HOSPITAL	
Skilled Nursing Payer Mix - CY 2003	
Medicare	43.3%
Medi-Cal	33.3%
Private Coverage	11.1%
Worker's Comp	1.1%
Self Pay	11.1%

Source: OSHPD Patient Discharge Study.

In 2003, SDH ran over 96% occupancy in 50 beds. As shown below, if Kaiser closed the sub-acute service, it would be difficult to find an available and accessible replacement service. Lodi Memorial Hospital, which is the closest comparable alternative program to SDH, is located over 26 miles away and runs at 77% occupancy. No other facilities offer similar long-term ventilator care in sub-acute facilities. The next closest alternative is at Eden Medical Center, which is 49 miles away. If the sub-acute unit at SDH were closed it would be difficult to find suitable placement for all patients without traveling long distances potentially even to Sacramento, 63 miles away, or San Francisco, 73 miles away. Because sub-acute patients stay long periods of time in the hospital, this would present a significant hardship for families.

Sub-Acute Services				
FACILITY	Miles from SDH	Licensed Beds	Pt. Days	Occupancy
ST. DOMINIC'S HOSPITAL		50	17,562	96.2%
LODI MEMORIAL HOSPITAL	26.6	47	13,184	76.9%
EDEN MEDICAL CENTER	49.0	67	11,376	46.5%
TOTAL		164	42,122	70.4%

Source: OSHPD Disclosure Reports (based on each hospitals most recent closed fiscal year).

SUMMARY OF COMMUNITY INTERVIEWS

Interviews were conducted in late August and early September at SDH, at various community locations and by telephone with numerous community stakeholders. The purpose of the interviews was to determine if area healthcare professionals or community representatives had knowledge regarding potential impacts on healthcare availability or accessibility as a result of the proposed hospital sales transaction. The major findings of the interviews are summarized below.

Reasons for the Sale to Kaiser

Physicians and the community believe SDH provides high quality services in a personal and caring manner. However, most people familiar with SDH recognize that it has a low general acute care census and has been struggling financially for years. Many people believe that the key reasons for the lack of success are:

- Although the medical staff is loyal, it is small in number of specialist coverage. Many of the physicians practicing in the service area have elected to keep their practices and patients at Doctor's Hospital of Manteca which is also viewed positively as providing high quality services. SDH historically has had difficulty recruiting and retaining additional medical staff or specialists and as a result the patient volume for services such as obstetrics and surgery has diminished in recent years.
- The expansion and growth of Kaiser's market share of insured local area residents. Because Kaiser has grown and because it contracts with hospitals located outside SDH's service area, SDH has had fewer insured patients available for its physicians and services. Kaiser is very positively viewed in the area and seems to be the favored insurance plan for area employers.
- Increasing expenses due to higher costs of insurance, labor, supplies, pharmaceuticals and maintenance and the need for capital equipment replacement.

Many feel that CHW would be unable to change the situation at SDH and the facility would continue to be underutilized and a financial drain on CHW. Some were concerned that, faced with the continuing underperformance of SDH, CHW may reduce services, close the hospital, or look for alternative purchasers.

Acquisition by Kaiser Foundation Hospitals

Most community representatives interviewed have very positive opinions of Kaiser. Because of its large area market share that includes over 53,000 members, it was believed that many more community residents would be served by Kaiser than are currently served at SDH. It was felt that Kaiser would bring many other benefits through its ownership of SDH:

- Financial stability for the hospital
- Additional patient volume and services
- New physicians and specialty coverage
- Better salaries and wages for employees
- Larger employment opportunities locally

A few individuals were concerned that ownership by Kaiser may mean that non-Kaiser residents would not be able to access the Hospital. However, others feel that Kaiser's commitment to keep the emergency room open would keep the Hospital available and used by non-Kaiser community members.

Overall employees and community members interviewed were positive and supportive of the sale to Kaiser and were not knowledgeable of any significant opposition. Both SEIU and CNA union representatives expressed support for the transaction and were complimentary about their bargaining relationships with Kaiser.

Some medical staff at SDH expressed concern about the sale of SDH to Kaiser. While not opposed to the sale, there is belief among some of the general non-Kaiser medical staff that CHW could have operated the facility successfully. Concerns expressed by the medical staff were:

- Kaiser would not continue to keep services available to the community.
- While the emergency department is required by law to be open to the community, ownership by Kaiser could discourage community usage (outside of its own enrollees).
- While Kaiser has stated that it will have an open medical staff that includes non-Kaiser physicians, most medical staff are planning to admit patients to other hospitals and only a few of physicians are anticipating remaining active on staff. These physicians want a strong commitment from Kaiser to maintain an open medical staff and to negotiate the insurance contracts necessary to continue to see their patients at SDH. Some physicians will be joining the Kaiser Permanente Medical Group. Others have stated that they will leave the geographic area.
- Physicians believe that it will be harder to attract non-Kaiser physicians to the community because of Kaiser's increasing market share which will make it harder for new private practicing physicians to build a successful practice.

Possible Effects of the Sale

Overall, those interviewed were supportive of the Hospital sale to Kaiser and in general were not concerned about negative impacts to the availability or accessibility of healthcare services. Specific observations from those interviewed are detailed below:

General Acute Care Services

Sufficient capacity exists at area hospitals to absorb the volume of inpatients currently admitted to SDH even if Kaiser were to admit only Kaiser members.

Skilled Nursing/Sub-Acute Unit

SDH offers a unique and respected regional service caring for ventilator patients on a long-term basis. It would present a hardship for current patients and families if this service were not continued. Because this service is not available at other hospitals in the region, closure of this service could result in future difficulties for hospitals and physicians needing to place patients for these services.

Emergency Services

Enough capacity exists in the community for emergency volume if the SDH emergency department remains open. If it were closed, a major negative impact on the availability and accessibility of emergency services would result. The only nearby alternative would be Doctor's Hospital of Manteca which could not absorb the nearly doubling of volume which could occur if the SDH emergency department closed.

While Kaiser has committed to maintain the emergency department for at least five years, some are concerned that ownership by Kaiser could discourage many non-Kaiser members from utilizing the Hospital. If this occurred, the emergency department at Doctor's Hospital of Manteca could be negatively impacted as described above.

The interim director of the San Joaquin Department of Health Services who is responsible for County Emergency Medical Services was not concerned about the impact of the sale of the Hospital to Kaiser and believed that overall, given Kaiser's sizable membership, the sale would have a favorable impact on community healthcare services. He also believed that the County Clinics and San Joaquin General Hospital could absorb many of SDH's emergency patients and inpatients as needed.

Likewise the Division Chief of the Manteca Fire Department and the CEO of the Manteca District Ambulance Service were not concerned with the impact on emergency services given Kaiser's commitment to keep the emergency department open.

Other Impacts/Concerns

Other observations and perceptions from the interviews included:

- Kaiser would probably bring more community benefit programs to the community than SDH has been able to provide in the past.
- The helipad is a valued community resource used to transport adult and pediatric trauma patients to regional medical centers with tertiary services.
- The CEO of St. Joseph's Medical Center in Stockton (CHW) expects to continue to provide outreach services to the Manteca area.

Use of Proceeds

Only a few people interviewed were knowledgeable of the intended use of the sale proceeds. Those who knew that net proceeds would go to the O'Conner Foundation of San Joaquin County were supportive because they believed that the funds will be used to provide new outpatient, education or preventative programs to uninsured or vulnerable populations in Manteca and other parts of southern San Joaquin County.

ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE ACCESSIBILITY AND AVAILABILITY OF HEALTH CARE SERVICES

General Acute Care

SDH has admitted approximately 2,000 general acute care inpatients per year and has an average daily census of about 14 patients. The approximately 53,000 Kaiser members who live in SDH's service area generate a need for approximately 40 beds on average as shown below:

AGE	APPROXIMATE KAISER MEMBERSHIP IN ST. DOMINIC'S SERVICE AREA	INPATIENT DAYS PER 1,000 MEMBERS	INPATIENT DAYS	BED DEMAND FOR KAISER MEMBERS (AVERAGE DAILY CENSUS)
Under 65	48,500	197	9,555	26
Over 65	4,500	1,144	5,148	14
Total	53,000	277	14,703	40

Source: Kaiser and Centers for Medicare and Medicaid Services

While not all local Kaiser patients could be seen at SDH, because patients would need specialty services that are not locally available, SDH could potentially serve many more community residents (albeit Kaiser members) under Kaiser ownership and operation than it previously served under CHW. As such, there will be a significant increase of accessibility and availability to inpatient services for area residents resulting from the purchase and continued operation of the Hospital by Kaiser.

Although Kaiser has offered to maintain an open medical staff for non-Kaiser physicians and patients, and will keep the emergency room open to the public, it could be anticipated that many of the patients that are currently admitted to SDH will be cared for elsewhere. This is because:

- Most of the private practice primary care medical staff on or close to campus have moved or will move their offices away from SDH to other hospitals or office locations. Most of these physicians anticipate admitting their patients to other hospitals (especially Doctor's Hospital of Manteca).
- Kaiser may not be successful in its contracting efforts with other insurers, and thus only non-Kaiser inpatients or Medi-Cal inpatients admitted on an emergency basis would likely continue to be seen at SDH.
- Other non-Kaiser patients who require emergency care, and whose medical condition allows a choice, may choose to go to another hospital where their doctors have privileges.

SDH should still have capacity for its current patient volume, even if all Kaiser service area patients currently cared for elsewhere were admitted to the Hospital. However, if SDH's non-Kaiser patients were redirected elsewhere, there is sufficient area hospital bed availability to accommodate them. The table below shows that approximately 463 general acute care beds are available (the average number of available beds that are unoccupied) which is more than sufficient to absorb all of SDH's current volume, plus additional volume created by population growth.

Hospital	Distance from St. Dominic's (miles)	Average Number of General Acute Beds Available (CY 2003)
DOCTOR'S HOSPITAL OF MANTECA	2.9	30
SAN JOAQUIN GENERAL HOSPITAL	10.1	57
SUTTER TRACY COMMUNITY HOSPITAL	12.5	36
DAMERON HOSPITAL	16.3	33
ST. JOSEPH'S MEDICAL CENTER	16.6	63
DOCTOR'S MEDICAL CENTER OF MODESTO	19.8	166
MEMORIAL MEDICAL CENTER (MODESTO)	20.4	54
OAK VALLEY DISTRICT HOSPITAL	24.0	24

Dameron Hospital currently receives many of the Kaiser patients from the SDH service area. If these patients were instead admitted to SDH under Kaiser ownership, then additional beds would be available at Dameron for non-Kaiser patients. Additionally, St. Joseph's Medical Center in Stockton is planning to add a tower of 72 beds which will significantly increase capacity in the service area.

An analysis of the supply and demand of area hospitals beds also shows that there is sufficient capacity to easily absorb SDH's historical patient volumes related to intensive/critical care and obstetrical services if non-Kaiser SDH patients were redirected elsewhere.

Emergency Services

SDH, with 10 emergency beds, had over 18,500 emergency department visits in 2003 (1,850 visits/beds). This is below the 2,000 visits/bed benchmark of the American College of Emergency Physicians for community hospitals. Although the emergency department receives a higher percentage of low acuity patients than most community hospitals, this still represents approximately 75-80% of available emergency capacity at SDH. The emergency department also received 1,193 transports by ambulance in the 2003 calendar year (43% of which were later transferred to another hospital because of SDH's inability to treat them adequately or because of insurance coverage reasons).

Doctor's Hospital of Manteca ("Doctor's") is the main alternative for service area residents requiring emergency services. Doctor's, with 11 emergency beds, has a volume of approximately 20,000 emergency department visits per year. This represents approximately 80-85% of its available emergency department capacity. Doctor's would probably not be able to successfully absorb the additional volume of emergency visits if the emergency department at SDH were closed. Because of the distance to other alternative emergency departments, the closure of SDH's emergency department would result in a major negative community impact on availability and accessibility to emergency services.

Kaiser has committed, in the Asset Purchase Agreement, to maintain the operation of the emergency department for at least five years and to maintain the sign at the Hospital regarding emergency services so long as Kaiser maintains basic emergency medical services at the Hospital.

Keeping the emergency department open will continue to provide sufficient capacity for the community's emergency needs. However, it will be important for area residents to understand that the service is available to them even if they are not Kaiser members. Otherwise, if SDH patients converged on the main alternative emergency department at Doctor's, the accessibility and availability to emergency services in the community could be negatively impacted.

Additionally, the helipad at SDH is an important resource that allows the use of air transport for traumatically injured and other patients to regional, out of area hospitals. The helipad was not addressed in the Asset Purchase Agreement and would result in a loss of a valued service if closed.

Skilled Nursing/Sub-Acute Unit

Currently 38 beds are licensed and operated for skilled nursing/sub-acute care. Until 2004, 50 beds were licensed for skilled nursing. The unit has been functionally full for the past five years and frequently has a waiting list of patients for admission. Most of the patients are ventilator dependent as a result of a traumatic injury or stroke. It is the only ventilator care unit in the service area, and because there are few hospitals with these services, over half of the patients come from beyond SDH's service area. Other services exist in Lodi and Castro Valley, but they have high occupancy rates and are distant from Manteca. Alternatives to these units require travel to Sacramento and San Francisco.

In the Asset Purchase Agreement, Kaiser has agreed that:

"If Buyer decides after the closing date to close or reduce the skilled nursing/sub-acute unit of the Hospital, and if such decision results in the transfer of patients who are not members of Kaiser Foundation Health Plan, to other facilities, Buyer shall consult with the patient and his or her family regarding the transfer, and subject to applicable legal requirements, the medical needs of the patient and the availability of beds in other facilities, Buyer shall take into consideration the interests of the patient and his or her family in determining the placement of the patient."

No commitment is made by Kaiser to the continued operation of the unit in the Asset Purchase Agreement.

Although only 100 or so long-term care patients are served in the unit per year, because of the fact that SDH offers a unique service for a large regional area, the closure of the unit would have a significant negative impact on the availability and accessibility to these services for the small portion of the population that needs them.

Reproductive Health Services

Tubal ligations, in vitro fertilization, and other reproductive health services have not been provided at SDH, therefore the sale of the Hospital will not reduce the availability or accessibility of these services. It is possible that under Kaiser's ownership, access to reproductive health services may be enhanced.

Other Health Care Services

While Kaiser will continue to operate the Hospital for non-Kaiser members, there is an adequate capacity in the area to absorb SDH's other general acute care services and outpatient services. Two SDH outpatient programs that Kaiser has indicated that it will close are cardiac rehabilitation and pulmonary rehabilitation. These two programs serve only a few patients. Kaiser currently provides these services on an outpatient basis so the closure at SDH may only leave service gaps for non-Kaiser patients. These programs are typically money losers at most hospitals and are provided on an outpatient basis. Non-Kaiser patients needing these services may need to travel to Stockton or Modesto to utilize substitute programs.

Effects on Services to Medi-Cal, County Indigent and Other Classes of Patients

While approximately 16% of the service area population is Medi-Cal eligible, SDH serves only a small proportion of Medi-Cal patients. This is partially because few medical staff members contract with Medi-Cal and Medi-Cal patients access other physicians, clinics and San Joaquin General Hospital (a county facility) for services.

Emergency services at SDH will continue to be available to Medi-Cal and indigent patients. Kaiser expects to continue with a Medi-Cal contract for sub-acute services and may contract with Medi-Cal for other services. Medi-Cal patients can also continue to access Doctor's Hospital of Manteca, which is three miles away, or San Joaquin General which is 10 miles away.

The Interim Director of the Department of Health Services believes that there will be no negative impact on Medi-Cal or County indigent patients as a result of the sale of SDH to Kaiser. The Director felt that, because the County and Kaiser collaborate closely over many health issues and programs currently, ownership by Kaiser could be beneficial to the County.

Effects on the Level and Type of Charity Care Historically Provided

SDH historically provided a small amount of charity care averaging only \$258,811 over the last three years on a charge basis or \$80,233 on a cost basis. Kaiser agrees that for the five year period after the closing date, it will provide charity care services at SDH consistent with its own standards and programs for charity care.

Because Kaiser is a health maintenance organization, it is difficult to forecast the continuation of non-Kaiser patient volume and their insurance coverage. It is also difficult to assess the amount of charity care Kaiser would be able to provide to non-members. However, the amount of charity care provided by SDH was small and therefore the potential for a negative impact resulting from the sale of SDH to Kaiser would similarly be small. If the emergency department and sub-acute unit continue to operate it would be expected that Kaiser would provide some charity care if non-Kaiser patients continue to use the facility.

Effects on Community Benefit Programs

SDH has historically provided a small amount of community benefit services averaging roughly \$30,000 per year in costs over the last five years. While Kaiser is likely to provide community benefit services, it has not made any such commitment in the Asset Purchase Agreement.

Effects on Staffing and Employee Rights

Because Kaiser has offered to consider all non-management employees for continued employment, little to no negative effect on employees is expected. In fact, employees, in general, seem pleased with the acquisition by Kaiser because:

- They will retain the same or similar job.
- Salary, wages and benefits are believed to be comparatively better at Kaiser.
- New positions and opportunities will be created locally and perhaps regionally within Kaiser's expanding organization.
- Additionally SEIU and CNA union representatives have expressed support for Kaiser and the sales transaction.

Effects on Medical Staff

The effects of the Hospital sale on the medical staff are likely to be mixed. Although some disagree with the need to sell, all are impacted by it, some in favorable and others in unfavorable ways:

- Some physicians view it as an opportunity to join The Permanente Medical Group.
- Some physicians view it as a problem causing them to relocate their practices.

- Two physicians reported that they plan to remain as long as they can continue to admit their patients.
- Some physicians may contract to provide specialty coverage.
- Most medical staff have privileges at other area hospitals and, if they are not joining Kaiser, expect to admit patients to those facilities.

CHW'S Commitments

CHW, in a separate Memorandum of Understanding (“MOU”) with the Dominican Sisters has agreed to certain commitments including the following:

- Diligent pursuit of the expansion of St. Joseph’s Medical Center in Stockton by 72 additional inpatient beds.
- The development of additional outreach healthcare services in SDH’s service area.
- A contribution of the greater of \$10 million or the net sale proceeds to the O’Conner Foundation of San Joaquin County for the purpose of continuing support of the medical mission of St. Joseph Medical Center. The Foundation’s stated charitable purpose is the financial support of St. Joseph’s Medical Center, SDH, and two other related healthcare entities in San Joaquin County.
- For five years after the closing date, CHW will match dollar-for-dollar all funds raised by the O’Connor Foundation which benefit the medically underserved or other vulnerable populations of San Joaquin County. This commitment will be limited to the amount of net sale proceeds that exceeds \$10 million.
- If Kaiser does not continue the provision of sub-acute services at the Hospital, CHW will undertake to arrange for the transfer of such patients in a manner that does not cause undue hardship on the patients and their families.
- CHW will prepare a specific human resources plan for dealing with employees who are displaced by the sale of the Hospital.

Alternatives

If the proposal sale is not approved, CHW may continue to operate the Hospital for the near term or look for another buyer. Given the adverse financial circumstances, closure could be a distinct long term possibility.

CONCLUSIONS

Overall, the sale of SDH to Kaiser is beneficial in that it will solidify the service and financial stability of the Hospital. As a result of the sale, more community residents will have access to services locally than previously under CHW ownership. Because of the sale proceeds contributed to the O'Conner Foundation and because of Kaiser's community commitments, it is expected that there will be an increase in community benefit programs and services.

While most or all negative impacts to accessibility and availability can be avoided, the largest potential for negative impacts depends on the community usage patterns of the emergency department and the retention of the skilled nursing/sub-acute unit. Kaiser is willing to make additional commitments to avoid potential negative impacts as recommended in the next sections.

Asset Purchase Agreement Mitigation Measures

As described in the Background and Description of the Transaction section of this report, Kaiser in the Asset Purchase Agreement has agreed to the following:

- Providing charity care services at the Hospital consistent with Kaiser's obligations as a non-profit tax exempt corporation.
- Maintaining a basic emergency medical service as a supplemental licensed service at the Hospital for five years available to the general public and not closing or reducing such supplemental licensed service.
- Maintaining the sign at the Hospital regarding emergency services or a similar sign so long as Kaiser maintains a basic emergency medical service at the Hospital.
- Consulting with the patient and his or her family regarding the transfer, the medical needs of the patient and the availability of beds in other facilities, if Kaiser decides to close or reduce the number of skilled nursing/sub-acute beds at the Hospital, and if such decision results in the transfer of patients who are not members of the Kaiser Foundation Health Plan, to other facilities.

Mitigation Measures Acceptable to Kaiser

In addition to the commitments in the Asset Purchase Agreement, Kaiser has verbally agreed to the following proposed conditions suggested by Medical Development Specialists to mitigate potential negative impacts of the sale of SDH.

1. Kaiser will actively promote the availability of the emergency room to non-Kaiser members for five years.
2. Kaiser will expend at least \$125,000 per year for the next five years on the community benefit services described below. This amount is based on the average cost of the

previous three years of charity care provided by SDH, plus the average annual value of community benefit services provided by SDH over the previous five years and accounting for future inflation. The required expenditures shall be used to provide education, screening, primary care and other similar healthcare services to uninsured residents of southern San Joaquin County. These services shall cover the following health conditions:

- a. Diabetes
 - b. Cerebrovascular health
 - c. Cardiovascular health
 - d. Prenatal care
 - e. Sexually transmitted disease
3. Kaiser will continue to operate a minimum of 38 skilled nursing/sub-acute beds, providing the same types of services and being available to both Kaiser and non-Kaiser members for at least five years. If, after five years, Kaiser chooses to reduce or eliminate the services then the provisions of the Asset Purchase Agreement pertaining to Kaiser's responsibility to find a placement suitable for patients would be in effect.
 4. Kaiser will continue to keep the helipad available for community medical uses for at least five years.
 5. Kaiser will keep the medical staff open to non-Kaiser physicians and serve their non-Kaiser patients for at least five years. It would actively encourage community physician involvement at the facility.

Recommended Action

Medical Development Specialists Inc. recommends conditional approval of the proposed transaction subject to acceptance of the mitigation measures specified in the Asset Purchase Agreement and the additional mitigation measures described in the previous section entitled "Mitigation Measures Acceptable to Kaiser."